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**THE POLITICAL ECONOMY OF PRIVATIZATION:  
ITS IMPACT ON THE AMERICAN MILITARY**

**by**

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14. ABSTRACT Privatization, a concept few military members believed had relevance for the armed forces a decade ago, is now central to the debate over how the Defense Department should be structured to meet the challenges of the coming century. Advocates have hailed privatization as the golden grail of economic efficiency in a time of collapsing defense budgets. Opponents have castigated privatization, asserting that it operates as a Trojan Horse, hollowing out the foundational support structure of the military and creating a brittle operational force. The proposition of this article is that military privatization cannot be professionally analyzed if it is viewed in isolation. While it might appear to a casual observer that military privatization initiatives have materialized out of thin air, in reality they represent a logical progression of larger historical currents. To place military privatization in context, this paper first reviews the collapse of socialism as a credible doctrine for the organization of human society. For it is primarily from the ashes of socialism that the global privatization movement has arisen like a phoenix over the last twenty years. The now extensive experiences of other nations in this field hold valuable lessons of how privatization can be accomplished with the least social trauma. These lessons are directly applicable to military privatization. Within the Defense Department, privatization is not the revolutionary concept that proponents and opponents often assert. In reality, the debate over privatization represents only the most recent wave in a much larger philosophical struggle to control the organizational heart and soul of the military: a debate that was unleashed when Robert McNamara become Secretary of Defense in 1963, although it has remained largely subterranean in recent years. Only when military privatization has been placed in this global and national framework does the current debate have coherence.					
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## *Preface*

Privatization in a variety of forms has become a catchphrase in the Defense Department for increased efficiency. The efficiencies sought are both immediate financial savings and the long-term rationalization of the force structure.

The fundamental thesis of this paper is that the privatization advocates are right: shedding government-owned support services and utilizing the productive energy and efficiency of the American private sector in their place does have the potential to create a more robust Defense structure at less cost to the taxpayers. However, this paper also argues that the focus of military privatization initiatives has been too narrow, ad-hoc and bureaucratic. Privatization involves far more than sterile cost accounting determinations. Successful privatization requires societal change to be effective. Understanding the cultural dimensions of privatization, whether it is applied to a nation or a single government agency allows the leadership to craft strategies that enhance the probabilities of lasting success. If the old adage that “war is too important to be left to the generals,” holds a nugget of truth, so it is also true that military privatization is too important to be left to civilian accountants.

I would like to thank my faculty research advisor, Colonel William M. Hogan, USAF, for the great latitude he gave me to approach military privatization from a less than orthodox perspective.

***Abstract***

TITLE: The Political Economy of Privatization: Its Impact on the American Military

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Privatization, a concept few military members believed had relevance for the armed forces a decade ago, is now central to the debate over how the Defense Department should be structured to meet the challenges of the coming century. Advocates have hailed privatization as the golden grail of economic efficiency in a time of collapsing defense budgets. Opponents have castigated privatization, asserting that it operates as a Trojan Horse, hollowing out the foundational support structure of the military and creating a brittle operational force.

The proposition of this article is that military privatization cannot be professionally analyzed if it is viewed in isolation. While it might appear to a casual observer that military privatization initiatives have materialized out of thin air, in reality they represent a logical progression of larger historical currents.

To place military privatization in context, this paper first reviews the collapse of socialism as a credible doctrine for the organization of human society. For it is primarily from the ashes of socialism that the global privatization movement has arisen like a phoenix over the last twenty years. The now extensive experiences of other nations in

this field hold valuable lessons of how privatization can be accomplished with the least social trauma. These lessons are directly applicable to military privatization.

Within the Defense Department, privatization is not the revolutionary concept that proponents and opponents often assert. In reality, the debate over privatization represents only the most recent wave in a much larger philosophical struggle to control the organizational heart and soul of the military: a debate that was unleashed when Robert McNamara became Secretary of Defense in 1963, although it has remained largely subterranean in recent years.

Only when military privatization has been placed in this global and national framework does the current debate have coherence.

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## Chapter 1

### Introduction

*Running any large organization is the same, whether it is the Ford Motor Company, the Catholic Church, or the Department of Defense. Once you get to a certain scale, they're all the same.*

—Robert McNamara

The concept of privatization has become a catchword for modernization and efficiency in the American military. The Defense Department is certainly not at the cutting edge of the privatization movement. We are in fact at the tail end of the world's march to privatization; somewhere in the parade ahead of Fidel Castro but, ironically, well behind the formerly Leninist leaders of the Russian Federation. This situation is not inherently bad: there are major differences between the needs of military and civilian societies that often make brilliantly sensible policies for the private sector inapplicable to the armed forces. Nevertheless, the current debate on privatization in the Department of Defense needs to be analyzed in the context of the global movement away from socialism and through the prism of American military culture to be truly understood.

As used in the current lexicon of the American military, “privatization” is an all-encompassing word for moving responsibility for functions and processes from the public sector to the private sector. It encompasses both the narrower form of privatization, “outsourcing” and absolute privatization.



For clarity of communication I will adopt the definitions of outsourcing and privatization as set forth by the Defense Science Board. The Board defines “outsourcing” as the transfer of a support function traditionally performed by an in-house organization to an outside service provider, with the government continuing to provide appropriate oversight.<sup>1</sup> The Board defines “privatization” as involving not only the contracting out of support functions, but also the transfer of facilities, equipment and other government assets to the private vendor.<sup>2</sup>

### **The Global Picture of Privatization**

Most forms of public (i.e. governmental) ownership of industrial production, social services and utilities were created on a socialist ideological underpinning of what constitutes the common good. This holds true if one reviews the Leninist economic model of the former Soviet Union, the economic philosophy of the 1930s Fascist regimes of Italy and Germany, the Fabian Socialist ideology which gave birth to the British Labor Party, or the liberal, democratic model of President Roosevelt’s New Deal.

The collectivists of the 1930s showed great ideological diversity, and some, especially in the United States, went to great lengths to advocate socialist economic models while scrupulously avoiding the use of the socialist cant common to European labor parties. However, they all shared a common collectivist belief in the basic goodness of government economic intervention and governmental ownership of key parts of the national economy. This common collectivist heritage can be synopsisized in three salient points.

1. *Government economic intervention is necessary to move humanity to or at least closer to, the utopian vision of a just society.*<sup>3</sup>

2. *The free market is not a reliable vehicle for building the infrastructure required by a modern industrial state.*
3. *The profit motive is not a respectable incentive for providing critical services (from hospitals to electric utilities) because it lacks “needed” central planning and does not distribute profits communally.*

The socialist juggernaut reached its pinnacle in the mid-twentieth century. The high water mark of collectivism varied from nation to nation. It ranged from the absolute state control of property, land in particular within the communist world, to various degrees of the mixed economies in the Western democracies. Those who believe the United States was largely spared socialistic idiosyncrasies need look no further than the Tennessee Valley Authority (TVA); a massive government-owned and operated utility network created at the height of the New Deal. In addition to the TVA, the same era produced comprehensive Federal control of agricultural output through subsidies and price fixing,<sup>4</sup> along with the nationally sanctioned and regulated monopolies that existed in core utilities from telephone service to electrical generation up until the late 1980s.

The relentless unraveling of socialist economics that has occurred during the last fifty years is beyond the scope of this paper. Suffice to say perhaps no ideological movement has promised so much wealth and prosperity for mankind, only to deliver such a bitter harvest of economic stagnation and poverty as modern socialism.

The legacy of this great socialist experiment is to have saddled governments around the world with businesses they were ill capable of managing efficiently. If there is an icon of the socialist era, it is obsolete factories, with bloated staffs, kept alive by infusions of taxpayer subsidies, only to produce shoddy goods that the theoretical “beneficiaries”

of this system (the public) decline to purchase. Those governments that embarked on the socialist economic equivalent of complete immersion Baptism, the absolute ownership of vertically integrated industries from the production of raw materials to the creation of the final manufactured products, found their ultimate economic pain absolutely magnified. As the correlation between socialism and poverty became ever stronger, the daunting challenge faced by governments around the world has been to withdraw from commercial enterprises.

The few remaining states which cling to the belief of a utopian society crafted and imposed from above through government fiat, tend to be located in the stagnant backwaters of the world community: Cuba and North Korea being the prime representatives. Those regimes which have deduced that an open repudiation of socialism would undermine their own historical legitimacy have retained a shell of collectivist jargon while filling their policy core with aggressive privatization policies built upon capitalist ideals. The best example is the Chinese government's disingenuous explanation of their capitalist policies as "socialism with Chinese characteristics."<sup>5</sup>

The political dynamics of privatization tend to be similar around the world. While government owned commercial enterprises often poorly serve the general public, that does not mean no one profits from their existence. Securely entrenched constituencies can be expected to oppose privatization with all their strength. Management and labor in government owned industries can be counted on to man the ideological barricades in unison to oppose privatization, passionately supported by their allies in the public sector trade unions. These groups are supported in turn at the national level by government

ministries whose reason for existence is the supervision of state owned enterprises and/or operation of economic regulatory programs.

The rhetoric used by forces opposed to privatization is remarkably similar around the world. Proponents of statism stoutly deny or simply ignore the economic efficiency of the private sector, instead casting the struggle in ideological terms that hearken back to the utopian ideal. These arguments revolve around two themes. First, unregulated markets will fail to provide necessary services (i.e. if telephone service is unregulated the poor will be without phones) and second, privatization will allow rapacious capitalists to prosper at the expense of the general public.

What is unstated but crystal clear is the fear of the incumbent government employees that the advocates of privatization are essentially right. Ergo: that state-owned industries are indeed bloated and inefficient organizations which poorly serve their customers, and if the relentlessly efficient hand of the market place were applied to their operations they either would not survive, or would do so only after the imposition of radically different manning levels and compensation systems.

### Notes

<sup>1</sup> Outsourcing and Privatization,” *Defense Science Board Task Force*, Office of the Under Secretary of Defense for Acquisition and Technology, August 1996, at page 7A.

<sup>2</sup> Ibid.

<sup>3</sup> The Utopian Ideal, set forth by Sir Thomas Moore in 1516, holds that private property is the root of all evil and that the fruits of individual labor should be communally shared.

<sup>4</sup> Those who believe only Eastern European or Third World countries face the challenge of unsnarling their economies from the tentacles of socialism should peruse the recent Federal Court case of *Minnesota Milk Producers vs. Secretary of Agriculture*, U.S. Dist LEXIS 17831 (1997). This case traces the development of Federal milk price supports from a “temporary” stabilization program in the 1930s into a deeply entrenched subsidy costing taxpayers and consumers a billion dollars per year. In striking down the Department of Agriculture’s “Eu Claire Rule” which fixed the price of milk based upon the distance from Eu Claire, Wisconsin, it was produced at; the court found the

### Notes

Agriculture Department's regulatory scheme to be so disconnected from the reality of the market for milk as to be arbitrary and capricious.

<sup>5</sup> For a comprehensive review of the length the Chinese Communist Party has gone to mask its embrace of capitalists policies or cloak them in Marxist jargon *See*: Cliff DuRand, "The Exhaustion of Developmental Socialism: Lessons from China," *Monthly Review*, December 1990, Vol. 42, No 7, pages 8-19.

## Chapter 2

### The Fruits of Privatization in the Civilian Sector

While the short-term political pain governments must endure to privatize industries is often intense; the long-term benefits it produces for society makes the effort worthwhile. The global privatization tidal wave began to form in Britain with the election of Margaret Thatcher in 1979. A generation of industrial nationalizations by successive Labor governments had left the country suffering from what was known around the world as “the British disease.”<sup>1</sup> Far from enhancing the standard of living for the nation, Britain’s nationalized industries were extracting the equivalent of \$600 *annually* from each tax payer in subsidies needed to keep them from collectively going bankrupt.<sup>2</sup> Over vociferous public sector trade union opposition, the Thatcher government undertook a comprehensive program of de-nationalization. By 1996 these same companies, now privatized, not only were off the corporate welfare roles (i.e. receiving no further cash infusions from the government), they *paid to the British treasury* the equivalent of \$200 in taxes for each taxpayer in the nation.<sup>3</sup> Indeed, British Steel, which required perennial infusions of cash while owned by the government, now represents a global benchmark for the efficient (and profitable) production of steel.<sup>4</sup>

The experience of the British government is consistent with the results of privatization around the world. In 1992 the World Bank conducted a global study of the net effect of

privatization in four nations: Britain, Chile, Malaysia and Mexico. In the aggregate, the Bank found that privatizations produced a net gain of 26% in economic output in the denationalized industries.<sup>5</sup> The Bank found the biggest efficiencies flowed from one factor alone: the newfound freedom of privatized companies to hire and fire employees and to craft compensation packages that reflected the true value of individual productive output.<sup>6</sup>

While privatization did in fact create “losers,” (the state employees who now faced the more demanding requirements of market place economics), the Bank found that the nations as a whole, including the national work forces, gained prosperity in the aggregate from the enhanced economic performance those countries reaped from privatization.<sup>7</sup> Whether one views the equation in utopian terms of the “greatest good for the greatest number” or a merely cold-eyed calculation of what best enhances a nation’s economic status, the evidence is overwhelming that privatization works.

### Notes

<sup>1</sup> See: John More, “British Privatization – Taking Capitalism to the People,” *Harvard Business Review*, January-February 1992, at page 115.

<sup>2</sup> “The Thatcher Revolution,” *The Economist*, September 21, 1996, at page 8.

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

<sup>5</sup> “Escaping the Heavy Hand of the State,” *The Economist*, June 13, 1992, at pages 73-74.

<sup>6</sup> Ibid.

<sup>7</sup> Ibid.

## **Chapter 3**

### **Cultural Impediments to Privatization**

The initial portion of this paper was intended to place privatization in a global context. While the concept of privatization is the same around the world, the impediments to its implementation are not. Few political leaders have the luxury of analyzing privatization in bare economic terms.

As an example, Margaret Thatcher's first privatization venture was the sale of British Telecom (a government-owned monopoly provider of telephone service) in 1984. Viewed as a pure economic transaction, it would have been in the best interests of the British government to seek the highest possible sale price for the telephone company. To expand the pool of bidders and insure the highest possible sale price, simple economics would have dictated that individuals and corporations from around the world be allowed to purchase as much of the stock as they desired. Furthermore, the Goliaths of the world equity markets – investment banks and pension fund managers – should have been allowed to bid for large blocks of the stock to ensure the initial public offering (IPO) price for the shares truly reflected global demand.

However, Thatcher's administration took the very opposite approach.<sup>1</sup> Her government set the IPO for the shares artificially low, all but guaranteeing the stock could be quickly resold on the secondary market at a tidy profit. The government then



offered to sell a large percentage of the stock directly to small British investors at this predetermined (and artificially low) price. While not publicly acknowledged, strategic political considerations, rather than short-term economic goals drove the terms of the privatization.

The government's strategy was aimed at two primarily political objectives. First, to neutralize the opponents of privatization who had argued that the de-nationalization of British Telecom would generate unjust profits for wealthy individuals and foreign corporations. Secondly, Prime Minister Thatcher wanted to build an appetite for further de-nationalizations in the British electorate. By guaranteeing that citizens who participated in the privatization by purchasing stock directly from the government would turn an instant profit (when the price immediately rose on the open market to reflect its true value), the benefits of de-nationalization became immediate and tangible to a wide swath of voters, rather than an abstract economic debate.

This strategy was spectacularly successful. Over two million small investors applied to purchase British Telecom shares directly from the government.<sup>2</sup> These small investors were extremely well rewarded for placing their savings into the British Telecom privatization. On the first day British Telecom stock began trading on the international exchanges the share price rose a stunning 90% over the price these small investors had paid the government.<sup>3</sup>

From the beginning, Prime Minister Thatcher quite cleverly co-opted the British public into becoming its ally in privatization by allowing small investors to act as arbitrageurs between the government and the global equity markets. In pure economic terms, allowing the British public to profit as the middleman in de-nationalization did not

add value to the process. However, it was immensely valuable in achieving the government's overarching strategic objective of moving Britain from a statist to a free market society. The manner in which British Telecom was privatized created an irresistible momentum in support of widespread privatization for every sector of the economy. Prime Minister Thatcher understood the *social dynamics* of privatization are every bit as important as its mathematics.

Unfortunately, analysts of privatization in the American military, especially those in favor of greater privatization, tend to approach the issue using naked economic calculations unclothed with considerations of the cultural framework of the society they are attempting to change. These proponents view the Defense Department as being inherently values-neutral in its use of economic models, or in the alternative, as a bureaucratic robot with neither the right nor ability to oppose the changes thrust upon it.

This economically sophisticated but politically naive approach has caused needless turmoil within the uniformed services, and exasperation for the privatization advocates when their objectives are repeatedly stymied. Understanding the cultural framework of the military as a unique society, required to carry out missions utterly dissimilar from private sector corporations should be the first order of business in privatization initiatives.

### Notes

<sup>1</sup> See: John More, "British Privatization – Taking Capitalism to the People," *Harvard Business Review*, January-February 1992, at page 115.

<sup>2</sup> "Privatization in Britain: Making the Modern Dinosaur Extinct," *The Economist*, February 23, 1985, at pages 76-78.

<sup>3</sup> Ibid.

## Chapter 4

### Military Culture and Privatization

It is often said that the military is a separate society. This assertion is made both by military members disdainful of civilian society and its mores, as well as civilians seeking to discredit military standards. In reality, military forces, even those with a large degree of autonomy tend deeply to reflect the societies, which created them. Certainly, the American military, while a unique institution, is not isolated from the prevailing ideological currents of American society.

In analyzing defense privatization, it is essential for the military professional to realize this policy issue will *not* be addressed solely as a military one. Similarly civilian leaders must make concessions to the exigencies of forward deployments, labor on demand, and ultimately, combat. It is unpersuasive for military leaders to resist specific privatization initiatives essentially on the grounds that the proposal would be inconsistent with traditional military practice and equally unpersuasive for civilians to ignore the non-commercial realities of the profession of arms.

The Defense Science Board defined one of the primary impediments to privatization in the military as the “...resistance of the DoD culture to fundamental change.”<sup>1</sup> The Board attributed the military’s hostility to privatization to flow from its orientation on readiness rather than efficiency. While no doubt technically accurate, the Board’s

analysis skims the ideological surface and does not address why the “culture” of DoD is hostile to private sector solutions, or why military officers assume organic (government owned) support services better enhance readiness.

### The American Military as a *New Deal* Society

Career military officers, NCOs, and to large degree the civilian employees of the Defense Department, have been raised, nurtured and trained in a distinctly socialist environment. Indeed, military culture and its system of personnel benefits, with a general preference for State ownership of economic assets is solidly rooted in the paternalistic and socialist ideals of President Franklin Delano Roosevelt’s *New Deal*.

While this assertion might strike many career military members (who in recent years have been collectively accused of what might be termed “excessive Republicanism” by liberal critics<sup>2</sup>) as counter-intuitive, the points of commonality between socialism and the military are in fact striking.

First, on a personal level the military controls an omnipresent cradle-to-grave welfare system on which the average service member is deeply dependent. Rather than provide income which individuals are free to allocate as their needs and desires dictate, military compensation is predicated upon providing government controlled services. Ergo: military optometry care might be basic and provide only black frame glasses of little aesthetic appeal, but the service is free and available to all. Indeed, for many military members every facet of life is provided for and controlled by the State. The house they live in, the school their children attend, the clinic they receive medical care from, the stores they shop in, are all owned and controlled by the State, providing benefits for “free” or at de minimis cost.

Almost alone among major organizations in America, the military clings to a defined benefit rather than a defined contribution pension system. Defined contribution plans (commonly referred to as 401Ks or 403Bs from the sections of the tax code, which authorize them) utilize tax deferred retirement accounts into which the employee and/or his employer make monthly contributions. The employee owns the assets immediately or vests for ownership in relatively brief periods of time. Customarily, the employee has great freedom to select specific investment vehicles; and may roll the assets over to a new deferred account if they elect to change employers (e.g. total portability).

The modern 401K/403B is the essence of the free market ethos: it places great responsibility on the employees to plan for their retirement; in turn it empowers them to control their own destiny. The “system” thus handsomely rewards the disciplined and frugal while harshly penalizing the slothful and profligate. The defined benefit plan utilized by the military is at the other end of the spectrum; it is a classically socialist system: military members never contribute a penny of their own money to the system and in turn have no voice in how the system is funded. There is normally no vesting (the right to draw benefits) until 20 years of service and the system has no portability. That is, barring unusual force reduction measures a service member voluntarily departing with 19 years of service has no accrued assets and leaves with nothing.

The knowledge of this non-portability breeds an extraordinary attitude of dependence. It manifests itself in many ways, most openly in the (quite rational and intended) reluctance of military members to consider changing employers before the 20-year point. Finally, while salaries are low (remember, compensation is largely made in services provided) even those are only loosely based upon performance. Salaries are based rigidly

on rank and seniority, rather than an assessment of what intrinsic value a person's labor has added to the organization in any given year.

In its totality, the military compensation system would be viewed as strange by the typical American employee at Microsoft, while his counterpart in a socialist collective farm would recognize it immediately as strikingly similar to his own world. Is it really so surprising that individuals nurtured and raised in such a system, often from the age of 18, often cast a jaundiced and distrustful eye at the free-wheeling private sector?

This military orientation toward rigid command and control production and financial systems over decentralized market models is certainly not unique to the United States. William H. McNeill catalogues the widespread appeal command economics have for military elites in *The Pursuit of Power*.<sup>3</sup> This sweeping review of the relationship between civilian society and military forces over the last thousand years chronicles how both the 19<sup>th</sup> Century Prussian and British armies, distrustful of private industrialists, attempted to contract for armaments exclusively through government-owned arsenals. It was only after it became painfully obvious that weapons from government arsenals were consistently inferior in design and overall quality that conservative British and German officers turned in frustration to the private sector. Indeed, it has been popular at times in the Anglo-American view of history to paint the Prussian General Staff and the Krupp's industrial combine as locked in an unholy alliance of conquest and profits. McNeill shows how in reality the Prussian Army stubbornly attempted to keep armaments production inside army-owned plants. The General Staff finally turned to Krupp's, resentfully, only out of fear that inefficient and technologically inferior government arsenals would imperil German security.<sup>4</sup>

Whether one analyzes 19<sup>th</sup> Century European armies or the modern American military, the cultural bias against the private sector remains constant. The power and security which command economies provide is as compelling for military leaders as it is for Marxist ruling elites. However, exactly like Marxist rulers, military leaders fettered to the government controlled production of goods and services are ultimately faced with the spiraling inefficiency and constant resistance to change that are part and parcel of command economies. It makes no difference in this equation if the government owned and directed plants are used for the production of automobiles or tanks. Likewise, the fact that the commands are given by military officers rather than civilian government bureaucrats will not inject creativity and incentives for efficiency into stodgy government monopolies. It is only when the price to be paid (in subsidies and shoddy products) for the security of control becomes unacceptable high that command bureaucracies relax their grip and look to the private sector in desperation.

The social dynamic that motivated the Prussian General Staff and British Army to resist privatization -- the security of control -- is as relevant today for the United States military as it was in 19<sup>th</sup> century Europe. The rather exasperated statements of the Defense Science Board that military culture is needlessly hostile to the private sector and wedded to inefficient support systems might be true, but they are not particularly helpful in understanding why those policy biases exist.

### Notes

<sup>1</sup> Outsourcing and Privatization,” *Defense Science Board Task Force*, Office of the Under Secretary of Defense for Acquisition and Technology, August 1996, at page 37A.

<sup>2</sup> For a rendition of the arguments that officer corps has become too openly partisan in favor of the Republican Party See: Andrew Bacevich and Richard H. Cohen, “Grand

### Notes

Army of the Republicans: has the U.S. Military Become a Partisan Force?" *New Republic*, December 8, 1997 at pages 22-25.

<sup>3</sup> William H. McNeill, *The Pursuit of Power: Technology, Armed Force and Society Since A.D. 1000*, University of Chicago Press, Chicago, 1982.

<sup>4</sup> Ibid. at page 273.



## Chapter 4

### Privatization and the Ghost of McNamara

The Defense Department has a long collective memory. The privatization debate has a hauntingly familiar ring to career military officers. It resonates with the policy initiatives of an arrogant Robert McNamara and his civilian Whiz Kids. Even the buzzwords used then and now are similar. It was McNamara who was determined to bring private sector business efficiency to the armed forces. It was McNamara who contemptuously dismissed the idea that the military was a unique organization.

In perhaps his most famous quote on the subject, McNamara stated that “Running any large organization is the same, whether it is the Ford Motor Company, the Catholic Church, or the Department of Defense. Once you get to a certain scale, they’re all the same.”<sup>1</sup> By such a sweeping assertion, McNamara dismissed any suggestion that the military had unique organizational needs because of its mission.

Not only was McNamara determined to force private sector business practices on the military, but ever distrustful of career officers, he used his civilian systems analysts as shock troops to force and implement “reform.” His rough-shod efforts to impose efficiency on the Defense Department, and his subsequent disastrous attempts to apply systems analysis to the war in Vietnam (e.g. comparing friendly and enemy body counts

as a quantifiable measure of success), all worked to reinforce the military cultural value that private sector business practices are grossly inapplicable to military forces.

The ghosts of the uniformed services' struggle with McNamara haunt the current debate on privatization. With some justification military leaders fear the counsel of those civilian political appointees who know the cost of everything but the value of nothing, and view the arguments for privatization through this prism.

While it might be possible to soundly discredit a concept in military circles merely by attributing it to McNamara, that does not hold true with Congress, Presidents, or the elite of the American business world. McNamara's reorganization of the Ford Motor Company, his efforts to rationalize defense procurement systems as Secretary of Defense, and subsequent stewardship of the World Bank all won him many influential admirers in American society.<sup>2</sup>

It is ironic that if the most conservative members of the military and the most vociferous and left wing critics of the Vietnam War agree on one thing, it is that Robert McNamara was a disaster as Secretary of Defense. But the wheels of history grind on and the military culture that allowed McNamara so thoroughly to dominate the debate over the proper organization of the Defense Department shows itself again in the debate over privatization. The cultural failure I refer to is the fact that the senior military leadership and the staffs which served them were ill prepared to do intellectual battle on the terms McNamara set for the struggle.

McNamara's disdain for the officer corps, based upon his perception of their ignorance about professional (e.g. private sector) organizational management, cost accounting methods and other quantifiable measures of merit, should not be dismissed

solely as personal intransigence, or the prejudice of a leader who favored the private sector. In reality, the management of the Defense Department, in particular the always-vexatious defense procurement process, left much to be desired.

Thirty years after its introduction by McNamara, the “planning, programming and budgeting process” remains the benchmark for the coherent financial integration of research and development, weapons production and operations. Furthermore, the Office of Systems Analysis (AKA the Whiz Kids) created by McNamara in 1961, and subjected to withering criticism from the moment of its birth by both military officers and Congressional budget chieftains, is still alive and well. However, it now travels under the moniker of the Secretary of Defense’s “Office of Program Analysis and Evaluation,” and is an accepted (if at times grudgingly) part of the DoD landscape.

The dominance of systems analysis in the early 1960s flowed not from the intellectual brilliance of McNamara and the Whiz Kids, though in their hubris they believed so. Their ideas only appeared to shine brightly when compared with the utter inability of the military services to quantify their own objectives, or credibly dissect the methodology of the Whiz Kids. As one of McNamara’s analysts succinctly explained their ideological dominance, “Other people had objectives, we had arithmetic.”<sup>3</sup>

Rather than deal effectively with McNamara on his own terms, the uniformed military tended to dismiss all systems analysts, and their civilian advocates, as the proverbial “pencil neck geeks” who knew nothing of the equally proverbial “real world.” This is aptly reflected in the condescending remarks made by Air Force Chief of Staff General Thomas White in 1963 when he stated “I am profoundly apprehensive of the pipe-smoking, tree-full-of-owls type of so-called professional defense intellectuals who have

been brought into this nation's capital.”<sup>4</sup> While this posturing might have done much for the military's collective sense of professional superiority, it did nothing substantively to answer the challenge posed by McNamara's organizational and budgetary expertise or respond to the relentless mathematics of his Whiz Kids.

The McNamara juggernaut was never really stopped as much as it was first tamed and then exploited by the military services to enhance their own organizational and procurement objectives. By the late 1960s all of the services had sent military officers to learn systems analysis as it was used in the corporate world, and then used this institutionally loyal talent to establish their own versions of DoD's office of system's analysis.<sup>5</sup>

While these organizations were first created to serve as an intellectual counter-weight to the Whiz Kids, they were retained long after McNamara and his staff had faded into history. The military, at great institutional pain, learned world class private sector business management practices, extracted what was truly useful and relevant, and molded these practices to serve the unique needs of military organizations.

### Notes

<sup>1</sup> Deborah Shapley, *Promise and Power, the Life and Times of Robert McNamara*, Boston MA, Little, Brown & Company, 1993, at pages 236-237.

<sup>2</sup> For a laudatory review of Robert McNamara, his drive and energy to excel, and the success of the systems analysis he utilized at the World Bank, See: Louis Galambos & David Milobosky, “Organizing and Reorganizing the World Bank, 1946-1972: A Comparative Perspective,” *Harvard College Business History Review*, Volume 69, June 22, 1995, at pages 156-229.

<sup>3</sup> “Whiz Kids Rebound?” *The National Journal*, Volume 21, Number 21, November 11, 1989, at page 2741.

<sup>4</sup> Ibid. at page 2742.

<sup>5</sup> Ibid. at page 2741.

## Chapter 5

### Beyond McNamara: The Current Experience with Privatization

The senior civilian leadership of the Defense Department has numerous policy roads it can take that steer the military toward privatization. A modified version of the “Thatcher approach” has the potential not only to diffuse the current consternation over privatization, but also to turn the uniformed military into enthusiastic supporters.

Early privatization initiatives should be selected and managed to provide clear, immediate, quantifiable and palpable improvements in the status of the military, particularly in the quality of life provided for the rank and file. Privatization initiatives should be managed, particularly in the introductory phase, *not* to maximize financial savings, but to build a consensus inside the military that “de-nationalization” of support services leaves the armed forces better cared for than the status quo. While the political leadership has asserted that it is pursuing this objective, the reality on the ground has fallen short. First, the rewards of privatization have largely been defined in promises of abstract future benefits that will accrue years from now. Even a rudimentary understanding of the Congressional appropriations process does not inspire confidence that savings generated now will be reliably returned to the Air Force in the form of additional F-22 aircraft or improved barracks in future years. For military members, the generalized benefits of

privatization are tenuous and intangible promises of a distant nature. Furthermore, there is the gnawing (and well placed) fear that promises of reinvesting savings from privatization made by today's political appointees and Congressional leaders are will-of-the-wisp and unenforceable; promises easily swept aside and forgotten by new political leaders with far different budgetary priorities. In essence, the uniformed military is thus encouraged to surrender tangible manpower authorizations and organically owned property today, based upon unenforceable assurances that this virtuousness will be rewarded in future budgetary decisions. This is not a formula to inspire confidence among astute military leaders in the wisdom of voluntary privatization. Secondly, the comprehensive privatization initiatives that have been undertaken to date have been the antithesis of the Thatcher strategy. Far from producing an immediate and tangible benefit for the uniformed military which will build support for future privatizations, they have tended to produce an immediate and tangible *decrease* (both perceived and real) in the level of support services.

The leading count in this indictment is the out-sourcing of medical care for dependents through the Tricare program. For the vast majority of military members, their personal experience with privatization has nothing to do with depots or base closings. It was the decision to outsource medical care and the impact of this action on their families, which forms their template for judging privatization. Tricare has been castigated by a former Surgeon General of the Army as a breach of faith with military families that produced a "six year set back" in Army medicine.<sup>1</sup> It has been subjected to scathing, widespread criticisms by its intended beneficiaries,<sup>2</sup> and generally found to be decisively inferior to the former government-owned and operated military medical care facilities that were

outsourced. While a sound case can be made that these failures are attributable to the half-hearted and incomplete out-sourcing of medical care which Tricare represents, this is irrelevant to the recipients of the program. The fundamental fact is that Tricare remains the overarching personal experience most military members have with privatization. With this hard reality on the ground, is it any wonder that a broad cross-section of military society views privatization as a code word for decreased levels of support and inferior services?

The successful out-sourcing of medical care could have been a fulcrum that enthusiastically levered military society from its embrace of *New Deal* models of support services. Indeed, it could have been the Secretary of Defense's equivalent of what the British Telecom sale was for Thatcher: A successful watershed that created a ground swell of support for privatization. Instead, the dismal Tricare experiment has only served to reinforce the traditional view that only-government owned and operated support services are reliable.

### Notes

<sup>1</sup> G.E. Willis, "Top Doc Hands off Troubled System" *Army Times*, 9 September 1996, at page 4. (Interview with retiring Army Surgeon General Alcide LaNoue.)

<sup>2</sup> Jeff Nesmith, "Complaints Haunt Pentagon's Health Care Repair; Where are the Savings? And Where is the Service? Doctors, Patients and Politicians Slam Program" *Atlanta Constitution*, 1 January 1998, at page 7A.

## **Chapter 6**

### **Military Privatization and the Civilian Work Force**

So far, this paper has addressed the impact of privatization on the uniformed services. However, there is another major stakeholder in the current structure of the military, the 771, 000 civilian employees of the Department of Defense.<sup>1</sup> In many ways, the civilian work force is the wild card in military privatization, difficult for the civilian leadership to play effectively.

First, the very real pain of privatization is felt most intensely by the civilian workforce. This is caused by several factors. Civilian employees are inherently support workers, not “operators.” Their traditional role has been to provide the services that military operations require. They are the maintainers and providers for the force. It is civilian employees who constitute the vast majority of the labor force at the depots. At operational bases and posts around the world they serve in an endless litany of support organizations. They are the cooks, carpenters, and bus drivers, clerical workers and snow removal crews who keep the non-combat lifeblood of the installation flowing.

While these services are vital, it is axiomatic that they do not represent the operational core competencies of the military. It is the organically owned support services where civilian employees are overwhelmingly concentrated which are most squarely in the cross hairs of the privatizers. Furthermore, the status of civilian employees, both legally and



socially, is far more defined by the position they currently occupy than is true for military members. As an example, if military support organizations are closed or outsourced, the impact on the military members and civilian employees is markedly different.

For the colonels heading the organizations the closure represents nothing more than an unexpected bump in their career, requiring them to change positions, or at worst, geographic location. Their legal rights, including pay and retirement benefits, are defined and controlled by their *status as a colonel in the military*. The elimination of the specific billet in which they are currently serving has no deleterious effect on their career. Thus military members have the freedom of working on bases slated for closure until the bitter end, secure in the knowledge that helping to terminate an organization does not equate to the termination of their career.

The situation is much different for our hypothetical colonels' GS-14 deputies. These individuals don't hold commissions; they were hired only to fill specific positions in specific organizations. If the organizations, and with it the deputies' positions are outsourced, their careers with the Federal government might well be over. It is possible they will be able to fill similar positions at different locations, (assuming there are vacancies), or accept lower graded and less important positions as the price of remaining within the Federal system. Nevertheless, they have no automatic *right* to continued employment, let alone a right to positions of equal stature.

The bottom line for civilian employees with marginal skills, or even highly skilled employees in career fields subject to comprehensive downsizing and outsourcing, is that the privatization of their organization makes continued employment with the Federal government uncertain.

Much ado has been made to Federal employees of their opportunities to continue employment with private sector corporations who successfully win out-sourcing and privatization competitions. The most noteworthy initiative being President Clinton's now apparently failed effort to "privatize in place" the depot operations at McClellan and San Antonio Air Logistics Centers. Indeed, successful bidders for Federal out-sourcing contracts are required to give displaced government employees first rights of refusal. However, like the substitution of Tricare for organic medical care for the families of the uniformed military, this substitution of employers often leaves federal civilians a decidedly inferior position, with lower pay, benefits and job security.

An excellent example of the deleterious effects outsourcing often has on federal employees, even when they accept employment from the successor private corporation, is shown in the results of the Army Corps of Engineers decision to outsource the maintenance of the Atlantic intercoastal waterway. In 1982 the Army Corps of Engineers decided to outsource the operation of the entire Atlantic intercoastal waterway to a private corporation whose bid was \$700,000 less per year than the most cost effective in-house bid.<sup>2</sup> The ultimate fate of the federal employees displaced by the Corps action is well documented because of the litigious opposition to this outsourcing by their union, the American Federation of Government Employees, (AFGE).

All of the displaced government workers were offered and accepted positions with the successor private corporation at comparable wages. However, the cost of their health insurance increased from \$59.50 to \$204.00 per month, their group life insurance was eliminated, while sick leave and vacation time were severely curtailed.<sup>3</sup> Not only was

their compensation reduced, but they also found themselves working for a private sector corporation with far less job security.

The results in this case should not be surprising. As stated in the first section of this paper, the World Bank found the single greatest cost savings in privatization stems from the freedom of private sector corporations to *control labor costs* by hiring and firing employees and crafting compensation packages to reflect the demands of the free market. Assuming the former government managers of the Intercostal Waterway were not wildly inept, the ability of a private sector corporation to underbid the Army Corps of Engineers by \$700,000 flowed from more than just managerial efficiency. This competitiveness most likely resulted from the fact that a private corporation could craft market-driven, competitive (e.g. lower) compensation packages for their employees.

Perpetual assertions of a “pay gap” between Federal and private sector wages notwithstanding, many individuals join the civil service, especially in the lower graded blue collar trades, out of a hard nosed assessment that for them *personally*, wages and working conditions are better in the Federal government than the private sector.

To wit, the real world pay gap might well be that the Federal government *overpays* its rank and file employees compared to compensation packages prevailing in the open market. Were this not so, the very real benefits (for taxpayers) in privatization would cease to exist.

### Notes

<sup>1</sup> William S. Cohen, *DoD Annual Report to the President and the Congress*, April, 1997, at page C-1.

<sup>2</sup> Major Richard K. Ketler, USMC, “Federal Employee Challenges to Contracting out: Is there a Viable Forum?” *Military Law Review*, Volume 111, Winter 1986, pages 103-164 at page 109.

<sup>3</sup> *Idem.* at page 110.

## Chapter 7

### The Role of Trade Unions in DoD and Privatization

While military members are forbidden by statute from joining or forming a union, the very opposite is true for civilian employees of the Defense Department. During the Carter Administration Congress passed *The Civil Service Reform Act of 1978*.<sup>1</sup> This sweeping Federal sector labor legislation made wholesale changes in the status of Federal employees. In particular, for the first time, the act created a statutory right for non-managerial federal employees to join and actively participate in labor unions. Furthermore, the act required the management of federal agencies to negotiate with employee unions on a wide range of issues. The Department of Defense was not granted exemption to this legislation. Commanders are thus under a legal obligation to recognize and negotiate with civilian employee unions on a bevy of issues.

The largest Federal employee union is the American Federation of Government Employees, (AFGE), a constituent union of the AFL-CIO. For the most practical of reasons -- the job security of its membership -- the AFGE is vociferously anti-privatization. Even a cursory review of AFGE publications and policy pronouncements over the last few years shows the importance this union places on halting privatization.

In 1996, Senator Craig Thomas (R-Wyoming) offered bill S. 1724, which would have required the Federal government to privatize all commercial activities within five years.

Then AFGE President John Sturdivant personally went before Congress to denounce this bill. In his testimony Sturdivant stated: “S. 1724 is against everything for which AFGE stands. Its underlying premises are wrong and its enactment would both constitute corporate welfare and undermine the principles of sound government.”<sup>2</sup> In a similar vein, the official AFGE publication *The Government Standard*, made the union’s position on privatization unmistakably clear in a 1997 editorial on the subject: “Privatization. For many government employees, just the word is enough to derail you for the day. But AFGE locals around the country have been engineering the fight to put the brakes on privatization, if not stop it in its tracks.”<sup>3</sup>

While the position of the AFGE could fairly be defined as reactionary and self-serving, that does not make it the least bit irrational or misguided. The AFGE’s mission and purpose for existence is not to enhance the interests of Federal taxpayers or the Department of Defense; even though the union’s sense of public relations is sophisticated enough to obscure or downplay that reality in the tactics used to oppose privatization. The mission of the union is to serve its own self-interest and that of its members. Privatization unquestionably weakens the AFGE, as it decreases the potential pool of workers (government employees) eligible to join the union. Furthermore, the fears of the rank-and-file membership that privatization will leave them out in the cold, or at least with inferior wages and compensation, are well founded indeed.

This leads to the Defense Science Board’s assessment of the role government employee unions play in the dynamics of privatization. In perhaps the most disingenuous advice in the entire report, the Board repeatedly asserts that seeking the earlier involvement of unions on specific privatization initiatives would improve the

privatization process: or as the Board artfully states, “facilitate the removal of political impediments to outsourcing.”<sup>4</sup> While no union leader likes to be ambushed by management on an issue that adversely affects their membership, the AFGE’s opposition to military privatization does not flow from inadequate communications.

The Board’s short commentaries on labor relations and Defense Department privatization have a superficial and somewhat condescending ring. Their collective implication is that union opposition to privatization could be ameliorated if only military leaders would take more time with union leaders to explain gently the privatization process and the budgetary dynamics that fuel its expansion. This is a most unworldly assessment.

In the first place, local AFGE leaders are often more familiar with the laws and policies on privatization, including the complex rules for OMB Circular A-76 outsourcing actions, than are the managers (military commanders) for whom they work. Second, while early and extensive notifications of outsourcing actions will no doubt be appreciated by the union, it is not realistic to expect a *quid pro quo* in the form of less determined and passionate opposition to a process which threatens the very lifeblood of government employee unions.

A more honest and forthright appraisal would be that government privatization and outsourcing creates an inherent conflict of interests and thus heightens the adversarial relationship between government employee unions and those pursuing privatization.

Unfortunately, American defense professionals, both military and civilian, have a propensity to write defense policy initiatives in complete isolation from (or without even publicly acknowledging) domestic political considerations.<sup>5</sup> Whether this philosophy

flows from the belief that national defense policies and domestic politics are in fact separate issues which should not be commingled, or a fear that forthrightly addressing how domestic political considerations impact Defense policies would be seen as somehow anti-democratic, the end result is the same.

While it might be true that “discretion is the better part of valor” in remaining silent on the political dynamics of many defense policy initiatives, this reticence to address the realities of domestic politics leads to incomplete and flawed decision making when it is applied to military privatization. Indeed, with the possible exception of conscription, it is difficult to imagine a Defense Department policy issue more deeply entwined with domestic political considerations than privatization.

None of this is to imply that the job security of government employees should be placed above the good of the nation as a whole or that the policy statements of the AFL-CIO on privatization should be accorded undue influence. However, a comprehensive and objective Defense Science Board report should be expected to deal with this conflict more candidly and forthrightly, if only professionally to advise defense leaders on the obstacles they face on the road to expanded privatization.

### Notes

<sup>1</sup> Title VII of the *Civil Service Reform Act of 1978*, 5 USC Section 7101 *et seq.*, provides the current statutory framework for labor relations in the Federal government.

<sup>2</sup> Statement of John N. Sturdivant before the Senate Governmental Affairs Committee, reprinted in the *AFGE Bulletin*, Volume 12, Number 10, October 1996, at page 3.

<sup>3</sup> Editorial, *Government Standard*, Volume 13, Number 6, November/December 1997, at page 5.

<sup>4</sup> Outsourcing and Privatization,” *Defense Science Board Task Force*, Office of the Under Secretary of Defense for Acquisition and Technology, August 1996, at page 57A.

<sup>5</sup> See: Kenneth R. Mayer and Anne M. Khademian, “Bringing Politics back in: Defense Policy and the Theoretical Study of Institutions and Processes” *Public Administration Review*, Volume 56, Number 2, March/April 1996.

## Recommendations

The situation military leaders face today in the struggle over the scope of privatization is highly analogous to the one faced with McNamara. Indeed, it is essentially the same struggle, only fought over different objectives. Spearheading the drive for privatization are again political appointees guided by advisors with strong roots in the private sector. The senior military officers who speak in favor of privatization tend to do so with the hedged endorsements and sullen lack of enthusiasm that bespeaks more the requirement to articulate the “party line” than sincere conviction.

The Defense Science Board Task Force that created the landmark study on military privatization was guided and led by masters of the private sector. The Chairman of the Task Force was Mr. Phil Odeen, President and Chief Executive Officer of BDM International. The Vice-Chairman was Mr. Mort Meyerson, President and Chief Executive Officer of Perot Systems Corporation. Once again, it is civilians from the private sector who are defining the terms of the debate, while military officers stand pensively on the sidelines voicing occasional objections. Once again, the military operates at a double disadvantage. First, the senior political leadership who ultimately mold the Defense Department have found the gist of the arguments put forward by this new group of private sector Whiz Kids very credible. Secondly, the military is at an institutional disadvantage in raising concerns or objections that are *credible within the framework of the debate*.

When presidents of major industrial and service corporations, people of immense business competence and unquestioned patriotism, confidently state that specific parts of



the military establishment can be performed better for less by private sector contractors and support their arguments with professional quantitative analysis, those arguments do (and in fairness should) carry great weight.

Senior military officers who have spent their lives focused on the art of operations, but have no experience at the executive level in the corporate world, are at an immediate disadvantage in this debate. Furthermore, counter-arguments that are not put in quantifiable terms, that are based on generalized philosophical premises of what parts of the support structure need to remain organic (i.e. owned and operated by the military) to ensure “reliability” or “clear command and control” tend to be viewed skeptically -- as smoke screens for the maintenance of bureaucratic empires and the emotional security of the status quo.

The time has come for military officers to stop rowing against the tide and plunge into the world of privatization. The current ad hoc approach to privatization is largely predicated upon the Byzantine (and purely economic) requirements of the OMB circular A-76 outsourcing competitions. It is conducted by local commanders ill prepared to conduct the *quantitative analysis* this outsourcing requires, let alone determine how their installation-level privatizations impact the overall fabric of Air Force support services. Ergo: if five of the six bases in a numbered air force elect totally to privatize their civil engineering squadrons based upon local budgetary determinations, how does this impact the deployment decisions of the numbered air force?

If the deployment tasking calls for 30 civil engineering troops, does the sole hapless installation commander who elected not to privatize this operation have his squadron deployed en masse to meet the tasking for the numbered air force? Do the five

installations that privatized their civil engineering roll happily along during the contingency, secure in the knowledge their engineering support staff is “undeployable?” Ad hoc privatization conducted under OMB Circular A-76 rules for outsourcing does not provide a forum even for addressing such issues, let alone resolving them.

The uniformed military needs a vastly expanded pool of well-trained professionals, operating in centralized locations and dedicated to understanding and analyzing the world of privatization issues. To be effective, these military brain trusts must have true expertise in military operations (our “real world”), public sector privatization, learned, federal law and policy issues, as well as a thorough knowledge of private sector commercial capabilities.

To the degree the officer corps studies and understands the corporate world, its knowledge and attention tends to focus on the massive, vertically integrated industries of a bygone age. This is understandable since those industrial behemoths most resemble the current structure of the Defense Department and have traditionally served as the most important suppliers; they are thus comfortably familiar. However, they are of marginal usefulness in understanding the challenges of privatization.

Rather than sending the best and brightest of the officer corps to intermediate and senior service schools, a more useful tack might be for a far greater percentage to attend institutions such as the Wharton School of Business, followed by internships with the Wal-Marts of the corporate world.

By “Wal-Marts,” I mean cutting-edge businesses whose success hinges on information management, outsourcing and a complex web of suppliers. When those officers returned to the military they would be far better prepared to utilize privatization where it’s

appropriate. Educating military/corporate interns would also give the military leadership the institutional firepower to credibly answer the challenge of today's civilian Pentagon Whiz Kids. Developing a robust institutional expertise in privatization allows the military to coherently graft this new economic paradigm into its culture, while intelligently opposing it in areas where a thoughtful analysis establishes it would weaken the military.

## Conclusion

The struggle between McNamara and the officer corps, which has evolved to the current debate on privatization, is often cast (then and now) as a contest between military and civilian values. While superficially true, this analysis misses the mark. A long historical view indicates the partisans of both groups represent two separate but equally honorable military philosophies.

McNamara and his protégés are the modern disciples of Jomini. Like this great Napoleonic strategist, they view warfare as a cold and precise science. To McNamara, as to Jomini, success goes to the leader with the greatest organizational skill in building and wielding a massed military force. It is warfare as the science of physics; the ability to concentrate energy and unleash it on an opponent.

The precise calculation of economic and logistical efficiencies are also integral to the Jominian model. During the Napoleonic era, as during the Cold War, the size of the military force a nation could raise and *keep mobilized for years on end* was critical in pursuing national objectives. When the maintenance and supply of large military formations are not a transitory situation but a permanent part of the environment, pursuing economic efficiency in a comprehensive and quantifiable manner becomes a national security imperative.

The situational dynamics of the Cold War that motivated McNamara and his Whiz Kids were very Jominian, as were the solutions they attempted. While the international situation is less foreboding for the United States today, the relentlessly increasing budgetary restraints placed on the military drive the civilian leadership of the Defense

Department into a new set of quantitative *cost-versus-benefit* analyses for every aspect of the military establishment. Indeed, the budgetary pressures for economic rationalization over robust operational readiness are if anything more intense now than they were in McNamara's time. With no hostile totalitarian super power menacing the interests of the United States, the arguments of those who make their policy recommendations based upon cold mathematics are harder to resist.

At the other end of the philosophical spectrum, the American officer corps are, in the aggregate, disciples of Clausewitz. As such, they view warfare as ultimately a human attribute, an art that can never be completely quantified as a mathematical equation. It is the firm political support of the nation, flowing through the iron will of the commander that energizes the force and cuts through the fog and friction of war. It is a philosophy that gives little credibility to those who would predict success or failure based upon the laws of physics or calculations of economic efficiency.

This is not a philosophical orientation that needs to be hedged or apologized for when articulated. How privatization effects the *morale and self-confidence* of both military members and the civilian work force is a profoundly germane issue, even if it is difficult to quantify. Members of the Defense Department, military or civilian, who believe their service has little intrinsic value, that their quality of life, if not their very careers, hinge on the non-military economic calculations of endless A-76 outsourcing competitions, are unlikely to have the devotion to duty and willingness to sacrifice needed by a professional military with global responsibilities.

If support personnel, from flight surgeons to mechanics, are effectively told their services are needed only if they "cost out" at less than private sector equivalents, is it

realistic to expect they will place “service over self” in assessing the loyalty they owe the Defense Department? Is it ethical to criticize them for making year-by-year calculations of the value of continued military service based purely upon economic considerations, rather than patriotic loyalty, when they know their employer judges *them* solely by an economic yardstick? If senior military leaders do not raise these considerations in the debate over privatization, rest assured that no one else will.

Truly great leaders borrow freely from both Jomini and Clausewitz, melding societal sophistication with dispassionate science. The American military operates best when there is a balance of power between these two schools. During the periods when either camp gains absolute ideological dominance, as happened with Secretary McNamara in the 1960s, the military becomes a less balanced and ultimately a less effective force. It is through this historical and cultural prism that both the officer corps and the civilian political leadership should view the unfolding debate on privatization.

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